

SOUTH CAROLINA
SECOND INJURY FUND

ANNUAL REPORT

2005- 2006

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**SOUTH CAROLINA WORKERS' COMPENSATION
UNINSURED EMPLOYERS' FUND**

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SOUTH CAROLINA SECOND INJURY FUND

William E. Gunn

Interim Director

MISSION

The Second Injury Fund functions within the South Carolina Workers= Compensation System. The mission of the Fund is twofold:

1. To protect employers from the higher cost of insurance that can occur when an injury combines with a prior disability to result in substantially increased medical or disability costs than the accident alone would have produced. This ensures that an employer is not made to suffer a greater monetary loss or increased insurance costs because they hire or retain an employee who has a disability.

2. To ensure payment of workers= compensation benefits to injured employees whose employers have failed to comply with the coverage provisions of the Workers= Compensation Law.

ORGANIZATIONAL VALUES

- Administer claims in a fair and impartial manner
- A highly professional and well-trained staff
- Continuous improvement of services

GOALS AND OBJECTIVES

The performance expectations of the agency, as a whole, and of each individual are reviewed regularly to ensure that we continue to meet or exceed the goals and objectives outlined. These goals and objectives are directly related to the agency's organizational values.

Goals

- To protect employers from increased workers' compensation insurance cost
- Advance the hiring and retention of the disabled
- To ensure payment of workers' compensation benefits to injured employees whose employers are in violation of the Workers' Compensation Law

Objectives

- Prompt determination of eligibility
- Efficient claims processing and payments
- Contain claims cost
- Sound fiscal management

YEAR IN REVIEW

We accepted 1,184 claims, of these 73% or 869 were within 4 years of the date of accident. This ensures that these claims should not adversely affect the employers= workers= compensation insurance premium.

This year 854 employees benefited from the Uninsured Employers= Fund.

The Fund's major achievements for Fiscal Year 2006 are summarized below:

- **Customer satisfaction scores remained high**
- **Cycle time to pay claims is lowest when compared to "like" funds**
- **Annual assessment reduced by \$24.1 million**
- **Claim and administrative cost continue to be less than published average for the private sector and "like" funds**
- **Uninsured Employers' Fund payout reduced \$2.5 million by finding other coverage**

The FY05 assessment of \$253 million levied in September 2005 was a shock to all carriers. The Budget and Control Board was asked to give some relief and a Joint Resolution was adopted by the General Assembly. The Fund ultimately reduced the assessment 30% to \$177 million. This reduction should result in a more predictable assessment process for future years and eliminate the extreme peaks and valleys of past assessments.

This year's statistics show that we are just starting to realize the effects of the 2003 amendments to our law. The amendment did away with the "unknown condition" as a reason to meet the knowledge requirement. This can be seen in the reduction of accepted claims over the past three years.

| | FY 2004 | FY 2005 | FY 2006 | % Reduced |
|-----------------|---------|---------|---------|-----------|
| Claims Accepted | 2,219 | 1,922 | 1,184 | 47% |

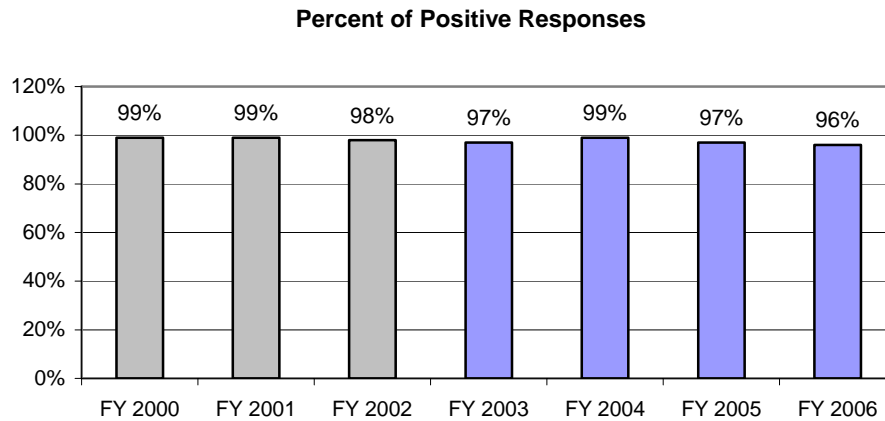
The total reimbursements for FY06 were down by 12% from FY05, \$147.6 million in FY06 versus \$166.9 million in FY05. We predict the reimbursements will continue to drop along with the number of claims accepted. We continue to have carriers reopening claims that are many years old and providing documentation for acceptance. The result being of the 1,184 claims accepted in FY06, 315 claims or 27% were accepted more than 4 years from the date of accident. In these cases employers will not receive any benefit in the experience modification used in their premium calculation.

During FY06 the Fund experienced the retirement of the Director of 30 years and 2 senior managers, the Director of Claims and the General Counsel. We lost over 65 years of institutional knowledge with their retirements. The Budget and Control Board has appointed an interim director who has many years in executive positions within state government including being an agency director on two separate occasions. We promoted

a long time member of our staff to fill the Director of Claims position. The General Counsel position by hiring an attorney with general counsel experience with another state agency. With these new appointments in key positions we can expect our customer satisfaction rating to remain at the level that our customers are accustomed to.

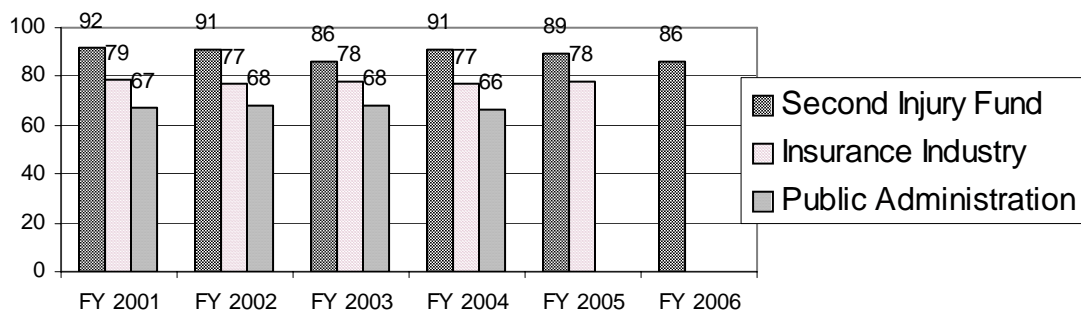
The Second Injury Fund has conducted an annual customer survey for the last five years to measure customer satisfaction. Customers evaluate our performance using a four point Likert Scale. Additional space is provided for written comments and to answer open-ended questions. We use this information to determine customer expectations and to gather recommendations on improving services. This information is compiled and trends are noted and distributed to all employees.

We use the percentage of positive responses to determine trends. The results for the past seven years are shown below:



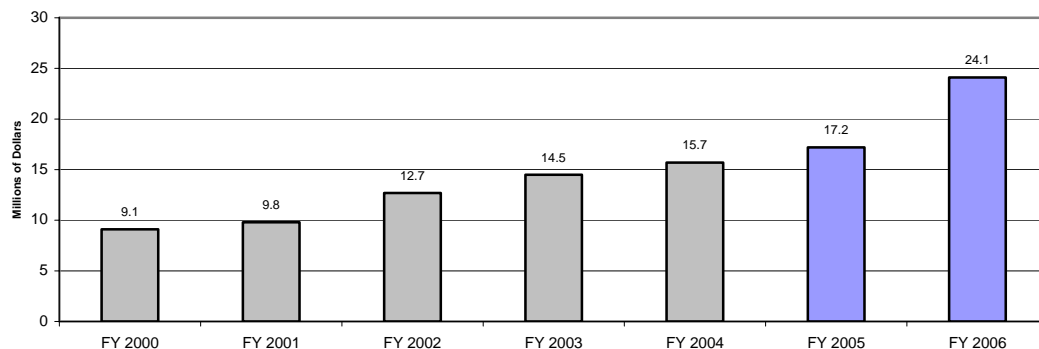
We compare our customers' satisfaction against the American Customer Satisfaction Index (ACSI) produced by the American Society for Quality. The index is nationally recognized and provides industry specific measures of customer satisfaction. The results of the customer survey are converted to a comparable scale of 0 –100 and then measured against the indexes of the insurance industry and public administration. The results indicate that the Second Injury Fund is exceeding the ACSI for both comparable industries. ACSI data not available for the Public Administration in FY 2005 and FY 2006 and the Insurance Industry for FY 2006.

Customer Satisfaction Compared to ACSI



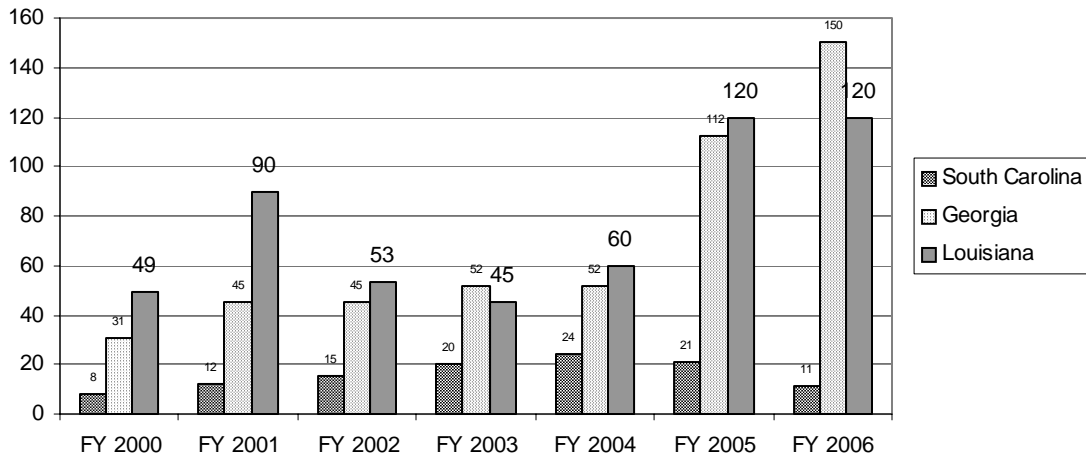
We measure the savings on the annual assessment caused by our internal review of reimbursements. By ensuring we only reimburse the amounts allowed by the Workers' Compensation Commission Medical Fee Schedule and compensation ordered we continue to have a positive effect on the assessment process. Our internal review of reimbursements led to a \$24.1 million reduction in the annual assessment for FY 2006.

Savings Achieved on Annual Assessment by Administrative Review



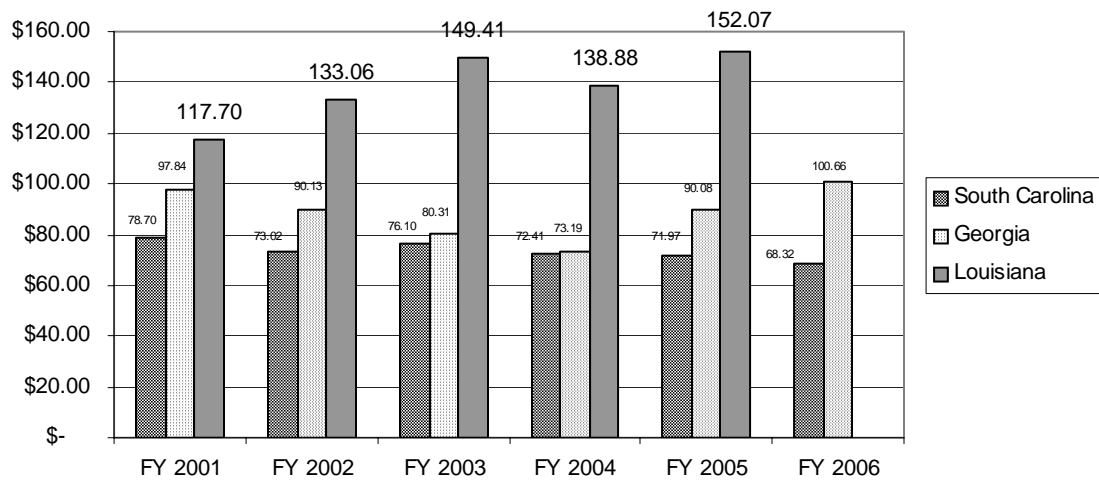
The Fund measures the number of days needed to process claim reimbursements. We compare our performance with “like” second injury funds in Georgia and Louisiana because their law is very similar to South Carolina Law. We have set the standard for the expeditious processing of claim payments.

Average Number of Days to Pay Claims



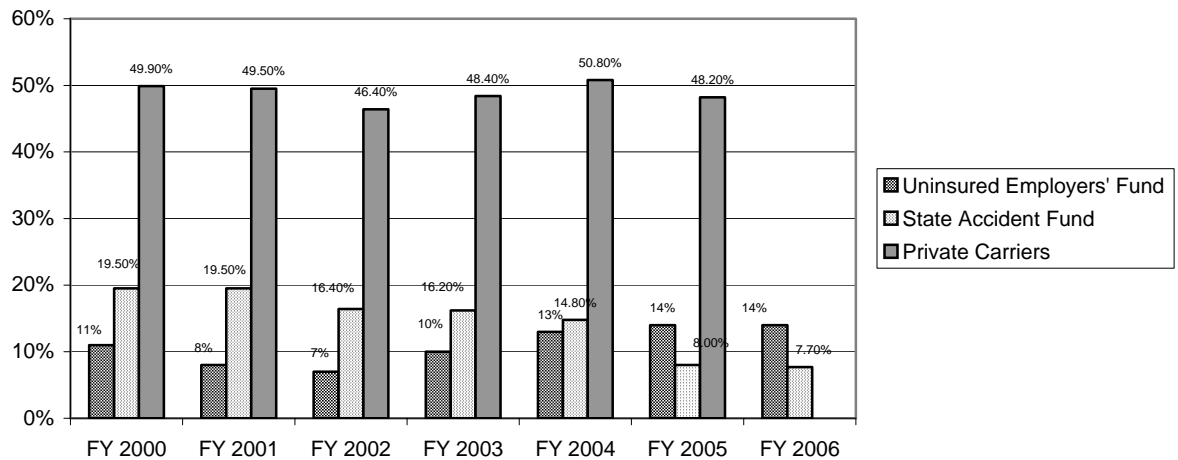
The chart below shows the Second Injury Fund’s average cost per claim compared to “like” funds from Georgia and Louisiana. Over the past six years we have set the standard. Louisiana data for FY 2006 not available.

Second Injury Fund Administrative Average Cost per Claim



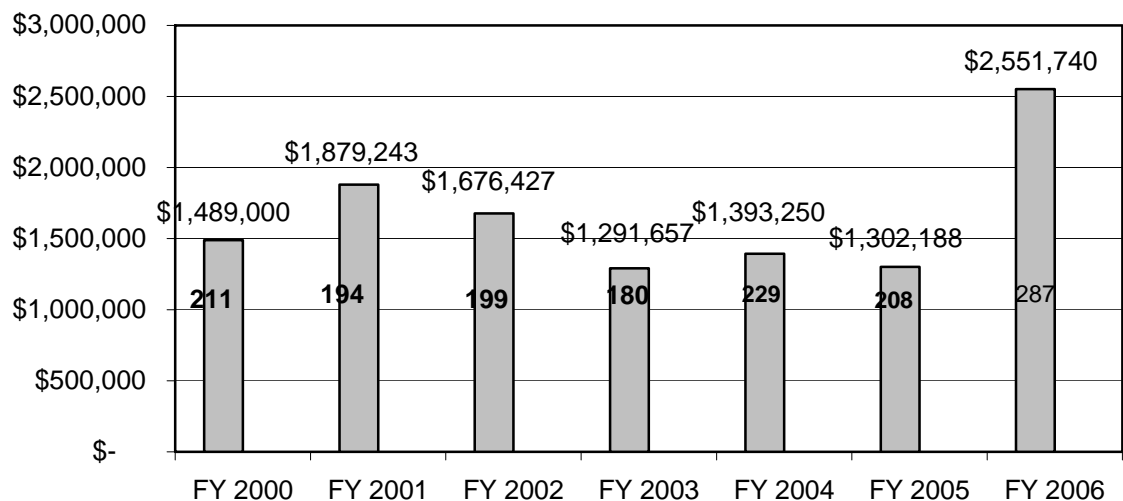
We compare the Fund with private carriers and the State Accident Fund. We are meeting our expectations by keeping our cost ratio lower than that of the industry. FY 2006 data for private carriers is not available.

Uninsured Employers' Fund Administrative Cost Ratio



We must actively investigate all Uninsured Employers' Fund claims to ensure no other coverage is available to pay benefits to the injured employee, saving the Fund from these payments. The amount of funds saved by the investigation process that found 287 claims with other coverage.

Savings from Other Coverage Found



SECOND INJURY FUND

Director

The administration and operation of the Fund is the responsibility of the director who is appointed by and serves at the pleasure of the Budget and Control Board.

Deputy Director

Under the supervision and management of the deputy director are the Fund's four functional divisions.

Claims

The Claims Division is responsible for the investigation, evaluation and development of action to reach a final decision for each claim. Conflicts of a non-judicial matter are resolved in the claims division.

Recoveries

The Recoveries Division is responsible for the recoupment of all benefits, costs and expenses paid by the Uninsured Employers' Fund. These recoupments are levied against the employer or whoever was legally responsible for payment of the claim.

Legal

The Legal Division represents the Fund in contested hearings before the Workers' Compensation Commission and in all appeals to higher courts.

Administrative

The Administrative Division is responsible for all internal programs such as assessment, finance, budgeting, human resources and staff development. They are also responsible for all administrative support to the Director and the three divisions.

KEY PERSONNEL

OFFICE OF THE DIRECTOR

William E. Gunn, Interim Director

DEPUTY DIRECTOR

Michael T. Harris, Deputy Director

CLAIMS DIVISION

Peter J. Calamas, Jr., Director of Claims

RECOVERIES DIVISION

Ann P. Corley, Director of Recoveries

LEGAL DIVISION

Latonya D. Edwards, General Counsel

ADMINISTRATIVE DIVISION

Deborah M. Manning, Administrative Manager

STATUTORY AUTHORITY FOR THE AGENCY

Section 42-7-310 of the South Carolina Workers' Compensation Law creates the Fund and establishes the agency to administer the Fund in accordance with the provisions of Sections 42-9-400 and 42-9-410.

CRITERIA FOR REIMBURSEMENT

Before the Fund can reimburse an employer, a disabled worker must suffer a subsequent injury. This injury must combine with or aggravate the prior permanent physical impairment, thus causing liability substantially greater than that which would have occurred from the subsequent injury alone. This is the basic concept of Second Injury Fund legislation, and without this substantial increase in liability, the employer has not been placed at a disadvantage. Therefore, he would not be eligible for reimbursement.

The following outline lists the basic requirements for reimbursement:

1. The employee must have a prior permanent physical impairment of such seriousness as to constitute a hindrance or obstacle to obtaining employment or re-employment.
2.
 - (a) The employer must prove that he had knowledge of the permanent physical impairment at the time the employee was hired or retained when a claim is made for reimbursement; or
 - (b) The employer may qualify for reimbursement if he can prove that he did not have prior knowledge of the employee's pre-existing physical impairment, because existence of such condition was concealed by the employee.
3. The employee must sustain a subsequent occupational injury:
 - (a) Which results in the employer's liability for disability and/or medical cost that is substantially greater than that which would have resulted from the new injury alone because of a combination with or aggravation of the prior impairment.
 - (b) Which most probably would not have occurred but for the presence of the prior impairment.
 - (c) Which results in death, and the death would not have occurred except for the pre-existing impairment.
4. Prior to reimbursement from the Fund, the insurer shall be required to certify that the medical and indemnity reserves have been reduced to the threshold limits of reimbursement.

FINANCIAL STATEMENT
FISCAL YEAR 2005-2006

Balance from previous year\$41,706,952.54

Receipts

Investments\$3,374,400.38
No Next-of-Kin Benefit\$106,319.38
Assessments\$196,165,043.18
Assessment Refund(\$19,577,185.68)
Miscellaneous.....\$8,975.75
Other\$98,073.78

Total \$180,175,626.79

Disbursements

Claims Paid by the Fund\$147,638,623.39
Administrative Costs.....\$1,582,559.01

Total \$149,221,182.40

Balance in Fund @ 30 June 2006\$72,661,396.93
(Including Fiscal Month 13)

CLAIMS ACTIVITY AGAINST SECOND INJURY FUND

Claims Carried from 2004-200510,158
New & Reopened Claims Filed
 Against the Fund in 2005-0611,430
Claims Closed11,173
Claims Open at End of Fiscal Year 2005-0610,415
Total Number of SIF Claims Paid.....3,860
Average Amount Paid Per Claim..... \$38,248.35
Total Number of Disbursements6,773

LAPSED DEATH BENEFITS PAID INTO FUND

Fatal Cases Reviewed 163
Recovery \$106,319.38

HEARINGS AND OTHER LEGAL PROCEEDINGS

| | |
|--------------------------------|-----|
| Proceedings Attended | -0- |
| Hearings Against the Fund..... | 106 |
| Depositions | 33 |

ASSESSMENTS

Section 42-7-310 subsection (d) of the Workers' Compensation Laws of South Carolina states that:

The funding of the Second Injury Fund on a continuing basis shall be by equitable assessments upon each carrier (which, by definition herein, shall include all insurance carriers, self-insurers, and the State Accident Fund) in a manner as follows:

Equitable assessments upon each carrier which, as used in this section, includes all insurance carriers, self-insurers, and the State Accident Fund. Each carrier shall make payments to the fund in an amount equal to that proportion of one hundred seventy-five percent of the total disbursement made from the fund during the preceding fiscal year less the amount of net assets in the fund as of June thirtieth of the preceding fiscal year which the normalized premium of each carrier bore to the normalized premium of all carriers during the preceding calendar year. Each insurance carrier, self-insurer, and the State Accident Fund shall make payment based upon workers' compensation normalized premiums during the preceding calendar year. The charge to each insurance carrier is a charge based upon normalized premiums.

These assessments were sent to each carrier in September 2006 and payments subsequently received by the Second Injury Fund.

| | |
|---|------------------|
| 175% of the Disbursement is | \$261,137,069.20 |
| Less Remaining Net Assets @ June 30, 2006 | \$72,661,396.93 |
| Equals SIF Assessment for 2005-2006 | \$188,475,672.27 |

This assessment (\$188,475,672.27) divided by the aggregate normalized premium for all carriers (\$977,331,835.00) equals the assessment rate (.192847164) applied to each carrier.

**SOUTH CAROLINA WORKERS' COMPENSATION UNINSURED
EMPLOYERS' FUND**

The State Workers' Compensation Insolvency Fund, S.C. Code Section 42-7-200, was established on February 24, 1982. On April 26, 1989, an amendment to this Act placed the administration of the Fund with the South Carolina Second Injury Fund. On June 12, 1990, it was changed to the South Carolina Workers' Compensation Uninsured Employers' Fund.

The mission of the Uninsured Employers' Fund is to ensure payment of workers' compensation benefits to injured employees whose employers have failed to acquire necessary coverage.

For a claim to come within the scope of the Uninsured Employers' Fund, there must first be a finding by the Workers' Compensation Commission that an employer is subject to and in violation of the Workers' Compensation Law as a result of their failure to provide the necessary insurance coverage. If that determination is made, the Fund may then consider the merits of an employee's claim and pay or defend the claim as it deems necessary. Once the Uninsured Employers' Fund has paid a claim, it is entitled by statute to recover the benefits, costs and expenses from the employer or whoever is legally responsible for payment.

**UNINSURED EMPLOYERS' FUND FINANCIAL STATEMENT
FISCAL YEAR 2005-2006**

Balance From Previous Year\$72,642.92

Receipts

Appropriations Transfers\$7,400,000.00

Recoupments\$347,515.24

Disbursements

Claims Paid by the Fund\$7,592,984.00

Balance in Fund @ 30 June 2006\$227,174.16
(Including Fiscal Month 13)

CLAIMS ACTIVITY AGAINST UNINSURED EMPLOYERS' FUND

| | |
|---|------------|
| Claims Carried From 2004-2005 | 1,173 |
| New & Reopened Claims Filed | |
| Against the Fund in 2005-06 | 411 |
| Claims Closed | 313 |
| Claims Open at End of Fiscal Year 2005-06 | 1,271 |
| Total Number of UE Claims Paid | 854 |
| Average Amount Paid Per Claim..... | \$8,891.08 |
| Total Number of Disbursements | 7,391 |

HEARINGS AND OTHER LEGAL PROCEEDINGS

| | |
|----------------------------|-----|
| Proceedings Attended | 677 |
| Depositions | 96 |